



THE VIRGINIA STATE BANKER

Regulatory News for Virginia State-chartered Banks
State Corporation Commission - Bureau of Financial Institutions
Commissioner E.J. Face, Jr.
ISSUE NO. 1 ----- WINTER 1998



INAUGURAL ISSUE



IN THIS ISSUE:

Commissioner's Message.....	1
Va. Bank Restructure 1997.....	1
Assessments.....	2
Record Applications	3
Year 2000 and Technology.....	3-4
"ELVIS".....	6
WEB SITE.....	7
Commissioner's Corner.....	8

The Virginia State Banker is published quarterly by the Virginia Bureau of Financial Institutions to provide useful information to the banks and savings institutions that it regulates, and any of their related interests. Reader comments and suggestions are strongly encouraged and should be addressed to:

Robert F. Mednikov
Principal Financial Analyst
Bureau of Financial Institutions
P.O. Box 640
Richmond, Virginia 23218-0640
or e-mail to:
bmednikov.scc@state.va.us

A MESSAGE FROM COMMISSIONER FACE



I hope you enjoy reading our first issue of the Bureau's quarterly newsletter directed to the Virginia banking industry. The purpose of the newsletter is to provide a forum whereby the Bureau can keep you, the industry, and other interested parties informed as to our activities, procedures, policies, concerns, etc.

We welcome any comments, suggestions and (mild) criticisms. Please feel free to copy or reprint all or portions of this or any other newsletter. Our goal is to reach as many parties as possible. We do ask that information be copied or reprinted in whole and not taken out of context. My thanks to Bob Mednikov for coordinating the newsletter.

VIRGINIA BANK RESTRUCTURE - 1997

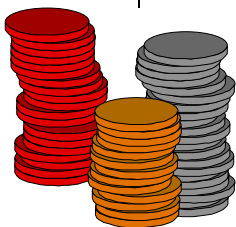
This past year was a year of many acquisitions and mergers, but it was also a year which provided good business opportunities for Virginia banks. During 1997, a relatively large number of Virginia financial institutions were acquired by out-of-state banks. At the same time, Virginia financial institutions were consolidating and expanding within Virginia, and new banks were forming to take advantage of consolidations.

In 1997, North Carolina bank holding companies led the charge against Virginia financial institutions. First Union Bankshares, Charlotte acquired Signet Banking Corporation, Richmond (\$12.0 billion) while Wachovia Corporation, Winston-Salem acquired Central (Continued on page 7)

COMMENTS SOUGHT ON BANK ASSESSMENTS

The Bureau of Financial Institutions, as indeed the entire State Corporation Commission, is funded wholly by fees paid by entities subject to its regulation. Banks and savings institutions are required to pay an annual fee each July in accordance with a schedule adopted by the Commission. The current assessment schedule was adopted in June 1990. It has served its purpose well. However, given the changes in industry structure since 1990 and today's dynamic market conditions, it is time to update the fee structure.

The Bureau will begin developing a new schedule in February for implementation with the July 1, 1998 assessment. For budgeting purposes as well as to afford state-chartered institutions ample period for comment, we felt it important to share our plans with you early. We harbor no preconceived agenda regarding a new schedule, but rather will be guided by certain philosophical parameters in its development. First, we remain committed to a fee structure designed to provide the minimum resources necessary to discharge professionally the Bureau's responsibilities as defined in the Code of Virginia. Second, we remain committed to an



assessment structure which will yield substantially lower fees than required of banks chartered by the Comptroller of the Currency (OCC). **Currently, the OCC's annualized assessment exceeds the Bureau's by over 50% for virtually every size bank.**

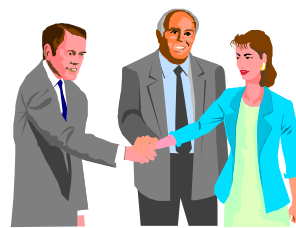
Third, the Bureau commits to remaining a good steward of the fees paid to us. During three of the eight years the current schedule has been in place, assessment rates were reduced: by 20% in Fiscal 1993, 20% in Fiscal 1997, and 10% in Fiscal 1998. Collectively, these reductions have left nearly \$3

million in the hands of state-chartered banks. We shall continue the cost-containment measures that made these reductions possible while searching for new means to improve efficiency.

A draft schedule will be published in the *Virginia Register of Regulations* this spring; a copy sent to each state-chartered bank and savings institution; and the draft schedule posted on the Commission's Internet home page. A comment period will be provided, and your input is not only sought, but welcomed. If you have suggestions, concerns, or comments you would like to share prior to the release of the proposed schedule, we are prepared to listen.

LITHUANIAN MEETS WITH BUREAU STAFF

On November 12, 1997, Commissioner Face and senior Bureau staff met with Lina Skorochodovaite, Head of Supervision for the National Bank of Lithuania. Ms. Skorochodovaite was visiting the United States in an effort to learn more about our country's dual banking system.



Having already had the opportunity to meet with federal banking regulators in Washington, D.C. and the Federal Reserve Bank in Richmond, Ms. Skorochodovaite was anxious to learn more about state bank regulation. The Bureau's staff provided her with an overview of the dual banking system from a state regulatory perspective.

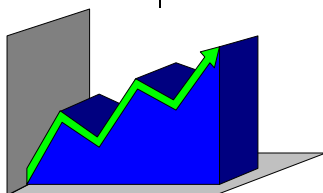
The discussion showed that while there are some similarities between the two countries' banking systems, there are also some stark differences. Of particular note, Ms. Skorochodovaite mentioned to us that although she is a banking regulator, she also serves as a

director for two of the banks her office regulates!!

APPLICATION FILINGS REACH RECORD HIGH WHILE PROCESSING TIME IS REDUCED!!!

For the eighth consecutive year, the Bureau of Financial Institutions processed a record number of applications for certificates of authority and licenses. According to Deputy Commissioner Nick C. Kyrus, the number of applications processed by the Bureau more than doubled since 1990. The substantial increase in the number of applications is mainly attributed to a growing national and state economy and also to the rapid expansion of regulated non-depository financial services.

The Corporate Structure and Research Section of the Bureau is responsible for processing applications of both depository and non-depository regulated financial institutions and for individual licenses. In 1997, there were 1,080 applications filed, compared with 964 in 1996. Depository institutions (banks, savings institutions and credit unions) filed 241 applications or 22.3 percent of total applications. Non-depository financial institutions such as mortgage lender/brokers, money transmitters, consumer



finance licensees, and debt-counseling agencies filed 839 applications or 77.7 percent of total applications. Bureau staff believes that the volume of applications has peaked and the new year will see a slight decline.

While the number of applications has been increasing, the Bureau has managed to reduce the processing time for most applications mainly through

computerization (greater efficiencies) and streamlining of application procedures. In the last two years, the time for processing branch applications was reduced from 45 days to about 30 days, and the processing time for relocations and Electronic Funds Transfer facilities was reduced to about 25 days.

YEAR 2000 ALERT!!!

Virtually every insured financial institution relies on computers, either its own or a servicer's, to provide for processing and updating of records and a variety of other functions. Most institutions cannot survive without the use of computers. Because of this, all institutions are vulnerable to problems associated with the year 2000. Most computer systems and programs are not currently



designed to handle the year 2000 for a variety of reasons. The core problem is that a majority of the systems in use today have a two-digit field for the year. When the year 2000 comes, the date will be reflected as "00"; but many systems will mistake that for the year 1900, leading to numerous problems when calculations requiring the use of dates are performed. For example, calculating interest, determining a person's age, and determining amortization schedules can be miscalculated. Automated Teller Machines (ATMs) may assume all cards are expired due to this problem. Errors caused by these miscalculations may also expose institutions and data centers to financial liability and risk of damage to customer confidence in the institution. If computer systems are not made year 2000 compliant, systems and programs may fail.

For an institution or data center to prepare for the year 2000, several steps must be taken.

First, the hardware and software used by the institution and/or its servicers must be analyzed for compliance.

The year 2000 problem is not limited to one type of software or hardware. Machines and programs affected include mainframes; personal computers; networks; and other items such as elevators, infrastructures, and telephone systems.

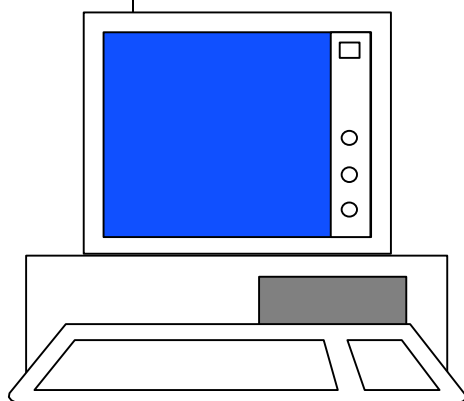
(Continued on next page)

In researching acceptable solutions, institutions and data centers will need to bear in mind the interrelationships between the various software systems they use as well as any data received from or provided to outside sources, such as Automated Clearing Houses or payroll servicers. Data from outside sources which is not compliant with the year 2000 may corrupt an institution's or data center's files, causing disruption in the institution's or data center's ability to process transactions. Alternatively, institution data or files not compliant which are sent to outside sources may corrupt those outside sources, leaving the institution with potential liability for any incurred losses.

All levels of management, including the Board of Directors, must understand the implications of this problem: specifically, the fact that all computer systems will be affected. The cost of the solution may be significant; and because the deadline for compliance is an immovable date and fully implementing solutions may take years, management cannot delay action.

Another area institutions should be aware of is the possibility of borrowers experiencing significant difficulties due to inadequate year 2000 planning. Many borrowers are dependent

on their computer systems; thus, they also need to make their own systems compliant with year 2000 requirements. The Federal agencies have issued detailed discussions on this issue. If you have not gotten a copy and read it, please do not delay. If you have any questions, feel free to call John Crockett at 804-371-9704.



NEW TECHNOLOGY AT THE BUREAU

With the year 2000 (Y2K) only 24 months away, the Bureau is verifying that software we use is Y2K compliant. Desktop and laptop computers are also being upgraded to handle Y2K. Financial institutions should be well on their way to identifying and enhancing software and hardware to prepare for Y2K. The Internet has become a major information link for the Bureau. To find out what's going on at the Bureau you can access our web site at **www.state.va.us/scc**. There you can obtain application forms and will find our newsletter,

regulatory information, and other pertinent data. In the future, the Annual Report will be made available. We will also have a link to the FDIC and Federal Reserve home pages.

Two years ago the Bureau placed into production a comprehensive database system (FIIS - Financial Institutions Information System) that stores all structural, financial, and examination data on state institutions. The system also helps in the processing of applications submitted to the Bureau and tracks each application as it goes through the approval process. Our staff can readily answer and assist consumers and industry personnel who may have questions regarding an institution.

In the future, bank examiners will also be using software that will assist them in the examination process. Banks will be asked to provide a loan data file that will be used as input to this application. Many of the manual processes performed by the examiner will be automated in this software. The Federal Reserve and FDIC have begun using this software in their examinations and are in the process of working out the bugs.

Note: Commissioner Face has been asked to serve on the Conference of State Bank Supervisors Technology Committee.



At the recent annual "Supervisor's Symposium" held December 8-9, 1997 in Dallas, Texas by the Conference of State Bank Supervisors (CSBS), Commissioner Face signed, as did all other state bank commissioners in attendance, the revised "Nationwide Cooperative Agreement." The Agreement, first adopted in November, 1996, was revised to further assist states in their efforts to maintain competitive, responsive, safe, and sound services for the citizens of their states in an interstate banking and branching environment. The text of the revised agreement appears on the CSBS Web Page at "www.csbsdal.org".

INTERSTATE BRANCHING - RECIPROCITY OF LAW

Recently questions have arisen about the nationwide reciprocity requirements under Article 5.1 "Interstate Branching De Novo and by Acquisitions of Branches," of the Virginia Banking Act, Chapter 2 of Title 6.1 of the Code of Virginia. The questions were prompted by a Bureau of Financial Institutions' "Response" dated

May 9, 1997 to a petition filed with the State Corporation Commission. That response asserted that the reciprocity requirements of Virginia law would be ineffective after May 31, 1997.

Based on more thorough analysis of Article 5.1 and the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, the Bureau now concludes that the reciprocity requirements of §6.1-44.7 of the Code of Virginia remain in effect.

The basis for the Bureau's current position is summarized as follows: (1) the Riegle-Neal

Act's requirement that certain state-imposed conditions end May 31, 1997 appears only in subparagraph (a)(3) of 12 U.S.C. §1831u which relates to "early merger transactions," and is not mentioned in those parts of the Act dealing with acquisitions of branches and de novo branching; (2) Virginia's Article 5.1, which opts-in early to de novo branching and acquisitions of branches, has no termination (or "sunset") provision on its reciprocity requirements; and (3) a statement of legislative purpose (in §6.1-44.14 of the Code of Virginia, Nonseverability) makes clear and explicit the Virginia General Assembly's intention to authorize interstate branching of banks only on a reciprocal basis.

This position is also supported by at least two OCC rulings upholding the validity of state law nationwide reciprocity requirements, without any mention of such requirements terminating after May 31, 1997. (See Decision on the Application of Wachovia Bank of North Carolina, N.A., OCC Corporate Decision No. 96-14, March 15, 1996, approving the Virginia de novo statute at issue; and Decision on the Application of Patrick Henry National Bank, Bassett, Virginia, etc., OCC Decision No. 96-04, January 19, 1996, approving the North Carolina de novo statute.)

“ELVIS”

Examiner Laptop Visual Information System

State member banks were mailed a communication dated October 10, 1997 from J. Alfred Broaddus, President, Federal Reserve Bank of Richmond, announcing the full implementation of ELVIS effective October 1, 1997. Non-member banks may have received a similar communication from the FDIC.

Although the FDIC and Federal Reserve have begun to use ELVIS, our examiners will not use the modules until the second or third quarter of 1998. As is our practice, we plan implementation only after receipt of a final version of the software, still not available at this writing in early December.

ELVIS is a series of modules which standardize a risk-focused examination process. These modules have been automated for use on laptop computers typically used by field examiners, and hence the “L” in the acronym for “laptop.” The concept of risk-focused examinations continues to evolve, but generally describes an examination which assesses a bank’s ability to identify and manage its risks, and in theory will reduce the volume of selected transactions and



balances reviewed. ELVIS is one of several inter-agency tools whose purposes include increased consistency in examinations conducted by the states and the federal agencies. Another of these tools, ALERT, is discussed below. We hope the byproducts of these efforts will be more efficient, more effective, and less burdensome examinations.

Seven basic ELVIS modules guide examiners in an analysis of the most significant bank activities including loan portfolio management, securities, management and internal controls, earnings, and capital. Six supplemental modules address other areas such as electronic banking and mortgage banking.

ALERT (Automated Loan Examination Review Tool)

Over the past year, the state regulatory agencies (through the Conference of State Bank Supervisors) and the federal agencies jointly developed, tested, and agreed upon an approach to collect loan data from financial institutions in an electronic format (e.g. diskettes or tape) prior to safety and soundness examinations. While this approach reduces the time examiners spend onsite at financial institutions, it increases pre-examination time requirements for both the institution and the regulatory agencies. An institution’s decision to facilitate ALERT by

providing loan portfolio data on machine-readable media is voluntary. The agencies are not mandating submission of electronic data, nor are banks required to alter their existing electronic data processing systems.

As noted above, this initiative is intended to streamline examinations. The regulatory agencies plan to work with industry vendors and servicers to build in ALERT capability, and thereby reduce the bank effort required to support this initiative. While ALERT is geared toward review of financial institutions’ loan portfolios during safety and soundness examinations, similar programs are being considered by the federal agencies to facilitate consumer compliance and CRA examinations.

Our regulatory partners began testing ALERT earlier this year. We expect to implement ALERT after the bugs have been worked out.

For further information on ALERT including the preferred technical specifications, please see FDIC Financial Institutions Letter 86-97 dated August 21, 1997. Contact Carol Foster in our office at 371-9704 for a copy of the Letter. Contact Deputy Commissioner John Crockett at the same phone number for questions or concerns regarding ELVIS or ALERT.

(Restructure...Continued from page 1)

Fidelity Bankshares, Inc., Richmond (\$10.7 billion) and Jefferson Bankshares, Inc., Charlottesville (\$2.2 billion). BB&T Corporation acquired Virginia First Savings Bank, F.S.B., Petersburg (\$860 million) and Fidelity Federal Savings Bank, Richmond (\$330 million), and is in the process of acquiring Norfolk's Life Federal Savings Bank (\$1.5 billion).

In addition to the acquisitions made by North Carolina banking organizations, there were also acquisitions of Virginia banks announced by Maryland and West Virginia banking organizations. Patriot National Bank was acquired by United Bankshares, Inc., Parkersburg, West Virginia and merged into United Bank, Arlington; George Mason Bankshares, Inc., Fairfax is also being acquired by United Bankshares, Inc. Furthermore, it was announced that Mercantile Bankshares Corporation, Baltimore, Maryland entered into an agreement for the acquisition of Marshall National Bank and Trust Company, Marshall; and Valley Bancorp, Charleston, West Virginia Corporation agreed to acquire First Federal Savings Bank of Lynchburg. Valley Bancorp was also successful in acquiring through its subsidiary Valley Bank, N.A., 15 former branches of Central Fidelity Bank and Jefferson National Bank. The 1997 acquisitions by out-of-state banks amounted to approximately \$30 billion in assets or 30 percent of total assets of Virginia banks.

Virginia banks, with the exception of Crestar Bank, did not expand

by merger outside Virginia. Crestar Bank merged into it Citizens Bank of Maryland; Citizens Bank of Washington, N.A.; and American National Savings Bank, F.S.B. of Maryland. George Mason Bank completed its merger with Palmer National Bank, Washington, D.C., but subsequently agreed to be acquired by a West Virginia holding company.

Other Virginia banks were active in other ways, consolidating their operations, forming holding companies, and buying closed branches of merged banks. In 1997, a relatively high number of intrastate acquisitions were also announced. First Virginia Banks, Inc., Falls Church, acquired Premier Bankshares, Tazewell; Community Bankshares Incorporated acquired County Bank of Chesterfield and Commerce Bank of Virginia, Henrico County; Eastern Virginia Bankshares, Inc. acquired Southside Bank, Tappahonnock and Bank of Northumberland, Heathsville. In addition, Resource Bank, Virginia Beach merged into it Eastern American Bank, F.S.B., Herndon. Recently, four acquisitions were announced: F&M National Corporation will acquire Peoples Bank of Virginia, Chesterfield County and Bank of Alexandria, Alexandria; and Mainstreet Bankgroup Incorporated will acquire Tysons National Bank, McLean and Regency Bank, Richmond. Furthermore, seven community banks reorganized under new bank holding companies, and a number of Virginia banks expanded by acquiring branches of merged banks.

This high acquisition and merger activity was seen by some as an opportunity to organize new banks. In 1997, Metro-County Bank opened in Hanover County, two new banks applied for certificates of authority to commence banking business in Northern Virginia, one federal savings institution converted to a bank in Charlottesville, and another one on the Eastern Shore is in the process. In addition, at least five other groups are organizing new banks in Virginia. New banks will not replace the larger banks lost to out-of-state banks, but will provide banking services to many Virginians who like to deal with Virginia-based community banks.

ATTENTION WEB SURFERS!!

Need to know more about the SCC and/or the Bureau but don't know who to ask? Lucky for you that in this computer age, information on the SCC is just a few keystrokes away!! Visit the SCC's web page at "www.state.va.us/scc". Available items include general SCC information, news releases, the bi-weekly calendar of cases, and links to SCC division pages. Through the Bureau's link you can obtain application forms, view banking laws and regulations, e-mail senior Bureau staff, and view past issues of the Weekly Bulletin and The Virginia State Banker.

COMMISSIONER'S CORNER

E. J. Face, Jr.

In late April, 1998, the Bureau and the Virginia Bankers Association will hold a series of joint meetings at various locations around the Commonwealth. These meetings will provide an excellent opportunity for us to exchange ideas and share information. I look forward to this open dialogue.



Look for further information soon from the Bureau and the Virginia Bankers Association.

Editors Note: The following Bureau staff members either wrote articles and/or made contributions to the production of this issue of The Virginia State Banker and their assistance was greatly appreciated: Commissioner Face, John Crockett, Nick Kyrus, Gerald Fallen, Ron Kaminski, Ricky McCormick, and Jane Owen. Also, special thanks to John Jezek, Jr. for technical assistance.

Bureau of Financial Institutions
State Corporation Commission
P.O.Box 640
Richmond, VA 23218-0640